

AUDIT AND GOVERNANCE COMMITTEE

26 November 2010

**INTERNAL AUDIT SERVICES – CONSULTATION FOR INTERNAL AUDIT PLAN
2011/2012**

Report of the Head of Audit, Risk and Procurement

1. Purpose of Report

- 1.1 It has previously been agreed that the Audit and Governance Committee will be consulted at an early stage on the development of the Internal Audit Operational Plan for the forthcoming year to give members the opportunity to contribute to raise any issues which they feel should be considered. The consultation is to take place during this meeting of the Committee and this report explains the proposed approach.

2. Background

- 2.1 The regulatory framework which governs the role of internal audit in local government is as follows:
- The Local Government Act 1972 (S151) requires that *“every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”*.
 - The Accounts and Audit Regulations 2003 (S6) (as amended) requires the Council to maintain an adequate and effective system of internal audit of its accounting records, and of its system of internal control, in accordance with the proper internal audit practices, these being set out in the CIPFA Code of Practice for Internal Audit in Local Government.
- 2.2 The Audit Charter states that the prime objective of Internal Audit Services is to provide assurance to the Council in relation to its internal control environment and assist management in delivering the objectives of the Council through assessing exposure to risk and recommending, where appropriate, practical improvements to the control environment.
- 2.3 Given the context above, Internal Audit need to focus their work on the key / major risks facing the Council when formulating the Internal Audit Plan.

3. Approach

- 3.1 In developing the coverage of internal audit work it is appropriate to cover the key risk areas of the business over a period of years. The frequency and scope of the work is driven by an assessment of risk in consultation with key officers within the Council and a review of key documents. In order to achieve this, an audit risk assessment and planning methodology is used, as follows:
- a. A list of key risk areas has been determined which cover the main areas of inherent risk within the Council. In developing this list regard was given to the key risks set out in the Council's Corporate Risk Profile and the underlying arrangements / controls which should be in place to manage those risks in the Profile.
 - b. Each key risk area is assessed based on the strength of the control arrangements known to be in place to manage the risks in that area, the likelihood of a failure in control, and the impact that failure could have. This results in an assessment of the level of need for audit work in order to be able to provide an opinion on the control environment in place in relation to each key risk area for each financial year.
 - c. In order to complete the risk assessment as outlined above, the following is carried out:
 - a review of key corporate strategies / plans;
 - consultation with the Chief Executive, Chief Officers, other senior managers, the Director of Financial Resources, the Corporate Risk Manager and the Assistant Chief Executive, to identify key issues facing the Council (and associated bodies) nationally, regionally, and locally;
 - consideration of new Council (or associated body) initiatives, government initiatives and legislation.
- 3.2 The full process highlighted above usually takes place over December and January of each year. The Council is currently engaged in a programme to review and improve services and identify efficiency savings to respond to the Government's announcements regarding reducing resources for local government generally and in specific service areas. This means that there will be changes to the way services are delivered and to the systems and processes being operated. Details of these changes will be identified through internal audit work that is currently ongoing and through the consultation that will take place with key officers.

3.3 The internal audit plan and the allocation of resources will need to be more flexible than in previous years given the increased level of changes that will occur across the Council. Based on knowledge of the work of the Council currently, there are a number of areas that are expected to be a priority for the operational plan for 2011/2012. These are as follows:

- Implementation of the Council's Economic Master Plan (through the Sunderland Single Investment Delivery Team).
- Shared Service Centre – a project is currently ongoing to bring together all of the transactional processes operated by the Council. This is due to be up and running with new processes in place in the coming financial year.
- Arrangements for the delivery of corporate services such as human resource management, training and development, performance management and budget management, which are expected to be unified.
- ICT support and delivery to directorates, including budget management.
- Corporate Asset Management.
- Implementation of the Council's Smarter Working Project, particularly the information security aspects of remote working.
- Major incident planning.
- Treasury Management.
- Customer Service Network developments.

3.4 The Committee is asked to consider and comment on the areas for potential inclusion in next year's Operational Plan listed above. Members are also invited to discuss any additional areas which should be considered during the development of the Operational Plan for 2011/2012.

